

Message Text

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ACTION NEA-10

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FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 7601

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E.O. 11652: GDS

TAGS: EFIN, EG, EAID

SUBJ: MORGAN STANLEY ASSISTANCE TO EGYPTIAN STOCK EXCHANGE

SUMMARY: DURING RECENT CAIRO VISIT, JACK EVANS OF MORGAN STANLEY BRIEFED AMBASSADOR ON MORGAN STANLEY'S EFFORTS TO HELP GOE REVAMP LOCAL STOCK EXCHANGE AND STRENGTHEN EGYPTIAN CAPITAL MARKETS. END SUMMARY.

1. IN NOVEMBER 1977, UNDER GOE AUSPICES BUT AT REQUEST OF GOE, MORGAN STANLEY UNDERTOOK REVIEW OF PRESENT EGYPTIAN TAX PROGRAM TO MAKE RECOMMENDATIONS ON POSSIBLE TAX INCENTIVES THAT COULD BE INTRODUCED TO STIMULATE PRIVATE DOMESTIC INVESTMENT AND REJUVENATE EGYPT'S CAPITAL MARKETS. JACK EVANS, MORGAN STANLEY VICE PRESIDENT, RECENTLY VISITED CAIRO (AFTER TRIP TO SAUDIA ARABIA AND KUWAIT) TO PRESENT DRAFT RECOMMENDATIONS TO GOE.

2. ACCORDING EVANS, MORGAN HAS DEVELOPED SERIES OF TAX PROPOSALS TO PROVIDE INVESTMENT INCENTIVES. IN ADDITION, RECOMMENDATIONS INCLUDE COMPLEMENTARY PLAN FOR SETTING UP SECURITIES AND EXCHANGE COMMISSION TO OVERSEE CREATION OF NEW PRIVATE CORPORATIONS. ORIGINAL GROUND RULES INCLUDED PLAN FOR OPENING UP PUBLIC SECTOR COMPANIES TO PRIVATE INVESTMENT; BUT AT LAST MOMENT, MORGAN STANLEY

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WAS TOLD STUDY SHOULD BE RESTRICTED TO PRIVATELY HELD AND EXISTING PUBLIC/PRIVATE JOINT CAPITAL VENTURES. EVANS ATTRIBUTES THIS CHANGE IN SIGNALS TO GOE RELUCTANCE TO MOVE TOO FAST ON CONVERTING "CENTRALIZED" ECONOMY TO MORE LIBERAL, CAPITALISTIC SYSTEM.

3. EVANS VOICED SOME CONCERN THAT GOE HAD GONE SO FAR

ON PRESENT TAX REFORM LEGISLATION (NOW IN PEOPLES ASSEMBLY) BEFORE BRINGING IN CONSULTANTS ON TAXATION AND INVESTMENT. NONETHELESS, HE HAS BEEN REASSURED BY GOE OFFICIALS THAT PRESENT TAX REFORM BILL IS INTERIM SOLUTION AND THAT CONTINUED TAX REFORM IS ANTICIPATED BY GOVERNMENT. AL NAZER EXPRESSED BELIEF THAT MORGAN STANLEY RECOMMENDATIONS FOR TAX INCENTIVES COULD BE INCORPORATED INTO TAX LAWS BY 1979. MORGAN REP COMMENTED THAT ONLY DISSENTING OPINION HE HAD HEARD CAME FROM MINFIN SALEH HAMED WHO APPEARED SKEPTICAL THAT ANY TAX INCENTIVES MEASURES WOULD BE SUPPORTED BY PEOPLES ASSEMBLY. EVANS ALSO DISTURBED BY HAMED'S APPARENT DISINTEREST IN QUESTION OF CAPITAL MARKET DEVELOPMENT AND RATIONALE BEHIND TAX INCENTIVES. MORGAN STANLEY, OR AT LEAST EVANS, HAS APPROACHED PLAN ENTHUSIASTICALLY, WITH GODE BACKING, AS BOTH BANKERS AND GULF FINANCE MINISTERS BELIEVE REJUVENATION OF EGYPT'S PRIVATE CAPITAL MARKETS VITAL TO LONG RANGE ECONOMIC PROSPERITY OF REGION. EGYPT HAS PARTICULARLY UNIQUE POTENTIAL TO REATTRACT CAPITAL OF EGYPTIANS WORKING ABROAD AND IT IS IN GODE'S INTEREST TO DEVELOP INSTITUTIONAL STRUCTURE (E.G., STOCK MARKET) THAT WILL FURTHER ENCOURAGE CAPITAL TRANSFERS.

4. ON MECHANICS OF PROGRAM, EVANS SAID FIRST STEP IS TO SET UP SECURITIES COMMISSION TO OVERSEE REGISTRATION AND SALES OF STOCKS. MORGAN FEELS IT

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STRATEGICALLY NECESSARY TO HAVE IMPORTANT AND WELL-RESPECTED EGYPTIAN AT HELM OF COMMITTEE. EVANS INDICATED GAMAL AL NAZER (CURRENTLY DEPUTY CHAIRMAN, INVESTMENT AUTHORITY) APPEARS FRONT RUNNER AND LOGICAL CHOICE FOR JOB. GODE'S MANAGING DIRECTOR DUKHAIL SUGGESTED GODE HIRE AN EXPATRIATE EGYPTIAN FAMILIAR WITH FINANCIAL OPERATIONS OF THIS TYPE IN NUMBER TWO POSITION. INDIVIDUAL WOULD BE OFFERED 3 TO 5 YEAR CONTRACT WITH RENEWAL OPTION AND ACTUALLY ADMINISTER DAILY BUSINESS OF SECURITIES COMMISSION UNDER AL NAZER'S GENERAL DIRECTION. EVANS STRESSED THAT EGYPTIANS HAD WELCOMED IDEA INFORMALLY AND AL NAZER EVEN KNEW OF SOME POSSIBLE CANDIDATES FOR POSITION.

5. ON TIMING, EVANS FELT THAT PROJECT WOULD NOT REALLY GET OFF GROUND UNTIL LOCAL MORGAN STANLEY OFFICE WAS FULLY OPERATIONAL. HE HOPED THAT WOULD BE NEXT MONTH BUT POINTED OUT MORGAN'S LOCAL STAFF HAD ALREADY FACED INNUMERABLE BUREAUCRATIC PROBLEMS, PARTICULARLY ON CUSTOMS CLEARANCE QUESTIONS, AND WAS NOT REPEAT NOT CONFIDENT THESE COULD BE IRONED OUT QUICKLY. EVANS ALSO NOTED THAT MORGAN STANLEY WAS SETTING UP OFFICE TO

SERVE AS DIRECT LIAISON FOR GOE, BUT NOW IT APPEARS THAT GOE WILL GO AHEAD WITH EARLIER PLAN TO OPEN THEIR OWN OFFICE IN CAIRO. EVANS IS UNCLEAR AS TO HOW THIS WILL WORK OUT OR IF GOE INSTALLATION WILL ACTUALLY SET UP SHOP HERE BEFORE END OF YEAR. HE ADMITTED, HOWEVER, THAT ONCE GOE IS HERE THERE MAY BE SOME DUPLICATION OF EFFORT.

6. COMMENT: GIVEN LEGISLATIVE HISTORY OF MOST RECENT TAX REFORM PROPOSAL, WHICH HAS BEEN TIED UP IN PEOPLES ASSEMBLY SINCE JANUARY 1977, WE HOLD OUT LITTLE HOPE FOR ANOTHER MAJOR TAX REFORM EFFORT ON PART OF GOE IN NEAR

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FUTURE. WHILE LAUDATORY, WE BELIEVE MORGAN STANLEY'S EFFORTS ARE HEADED FOR STILL MORE FRUSTRATION IN DEALINGS WITH GOE. MOREOVER, GAMAL AL NAZER IS ALREADY SEVERELY TAXED BY DEMANDS OF BOTH MINISRY OF ECONOMY, AID LIAISON POSITION AND INVESTMENT AUTHORITY WHERE HE IS DEPUTY CHAIRMAN. GIVEN THAT, WE QUESTION WHETHER OR NOT HE WILL HAVE ENOUGH EXCESS TIME TO DEVOTE TO CREATION OF "SECURITIES AND EXCHANGE COMMISSION" PROPOSED BY MORGAN STANLEY. PROGRAM IS UNDOUBTEDLY SOME WAY FROM IMPLEMENTATION STAGE. EILTS

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